Reading #6

Reorganizing your worldwide business

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MNCs need to reorganize to

- accommodate changes brought about by growth

- correct problems (internal turf battles / conflict, internal duplications, lack of control, etc.)

-introduce new products

🡪 reorganization can also be driven by conflict between international business (which had a geographic orientation) and domestic operations (which are often product-oriented)

International division is common first step, with growth typically consider alternative structures:

**Product division** (focus on one product worldwide):

STRENGTHS: easier to achieve product and marketing integration, Most suitable when goal is rapid growth and wen company has varied product lines; gives broad individual decision making power to managers

WEAKNESSES: less locally responsive - centralized marketing. Current trend indicates need to pay closer attention to local concerns which this structures does not facilitate

**Area division** (focus on all products in one area/region)

STRENGTHS: more responsive to regional/area differences. Efficient for products where local preferences are critical to product acceptance, for situations in which economic factors limit the area in which products can be sold/distributed. Best for locations in which host government regulations are significant--> this structure allows for building close ties with host governments

WEAKNESSES: weaker ties to HQ; difficult if company has different product lines with different marketing implications; requires broad based of talented managers with global mindset

**Matrix structure** (integrates product and area)

STRENGTHS: integrates HQ and field - gives most HQ control, every product and every area has a champion

WEAKNESSES: most costly due to staffing, violates principle of unity of command, requires extensive training to work on teams

**Strategies that fit Emerging Markets**

Emerging markets can be challenging because of “institutional voids” (lack of market research firms, HR search firms, logistics providers) 🡪 successful companies work around institutional voids. Institutional voids mean higher cost of entry or higher cost of coordination/control

Composite indices are not always reflective of a nation’s potential for global expansion. Looking at GDP, per capita income, population composition, exchange rate, purchasing power parity, nation’s standing on the World Economic Forum for Global Competitiveness Index, Transparency International corruption index, forecast for political transition – these are important but do not necessarily alert new entrants to institutional voids in emerging markets.

To map the institutional context need to examine:

* Political & social system:
* Openness: to entry of MNCs for example
* Product markets: for example absence of market research firms or customer credit ratings
* Labor market: availability of skilled labor as well as recruiting agencies
* Capital market
* Need to adjust strategy to fit context (Ex. Dell in China & McDonald in Russia)